Development Bank of Southern Africa Limited
Registration number: 1600157FN
JSE alpha code: DIDBS

Reviewed results for the period ended 30 September 2018

Overview

Development Bank of Southern Africa Limited (hereafter referred as "the Bank") is a development finance institution, whose only shareholder is the Government of the Republic of South Africa. This summary of the condensed interim financial results is published on SENS to provide information to the holders of the Bank's listed debt instruments. The condensed interim results are prepared in accordance with the requirements of the JSE Limited (JSE) Listings Requirements, the requirements of International Financial Reporting Standards (IFRS) and its interpretations as adopted by the International Accounting Standards Board, the presentation requirements of IAS 34:Interim Financial Reporting and requirements of section 27 to 31 of the Companies Act of South Africa (Act No.71 of 2008) (The Companies Act) being the relevant and corresponding sections specified in the Development Bank of Southern Africa Act. The detailed interim results are available on the DBSA website (https://www.dbsa.org).

Independent review of results by Auditors

The condensed interim financial statements of the Bank for the six months ended 30 September 2018 have been reviewed by the Bank's auditor, The Auditor-General of South Africa (hereafter referred to as AG) and the AG has expressed an unmodified review conclusion on the condensed interim financial statements. The AG's review conclusion, which is available for inspection at the Bank's registered office, states that the review was conducted in accordance with 'International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*'.

Context of the condensed interim financial statements

Statistics SA announced in September 2018 that South Africa is in a technical recession following two consecutive quarters of GDP contraction, primarily driven by declining output in agriculture, transport and trade. Further to this, business confidence and economic growth continue to be weak. The Bank continues to experience the adverse impact of the subdued economy, resulting in reduction in disbursements to date as compared to the same period last year. The Bank will continue to pursue the implementation of its growth strategy and catalyzing third party funds for increased sustainable infrastructure development impact.

Preparation of the condensed interim financial statements

The condensed interim financial statements have been prepared under the supervision of Boitumelo Mosako CA (SA), Chief Financial Officer.

The Board of directors take full responsibility for the preparation and for correctly extracting the financial information from the underlying reviewed condensed interim financial statements for inclusion in the SENS announcement.

Basis of preparation

Except for the adoption of IFRS 9 and IFRS 15, accounting policies and methods of computation applied are consistent with those applied to the annual financial statements as at 31 March 2018. The Bank adopted IFRS 9: Financial Instruments on 1 April 2018. IFRS 9 replaces IAS 39 and introduces new requirements, which includes an expected credit loss impairment model together with new requirements for the classification and measurement of financial instruments. The Bank has retrospectively adopted the IFRS 9 standard with an adjustment to its opening retained earnings on 1 April 2018 and has elected not to restate its comparative annual financial statements, as permitted under IFRS 9. The Bank adopted IFRS 15 on 1 April 2018 and, as permitted by the standard, did not restate its comparative financial results. IFRS 15 does not affect the bulk of the Bank's revenue, as the standard does not apply to revenue associated with financial instruments.

The condensed interim financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments held at fair value through profit and loss, land and buildings, post-retirement medical benefits, and funeral benefit obligations measured at actuarial values. The condensed interim financial statements are in conformity with IAS 34, Interim Financial Reporting. The preparation of condensed interim financial statement requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Key impressions of the financial results and activities

For the period ending 30 September 2018, net profit increased by 54% year-on-year due to an increase in net interest income of 17%, a net gain on foreign exchange of R628m (30 September 2017: loss of R110m) and a gain on financial instruments of R290m (30 September 2017: loss of R40m). Sustainable earnings increased by 14%, to R1.6bn (30 September 2017: R1.4bn). Sustainable earnings is net profit adjusted for foreign exchange and revaluation of financial instruments. The total assets decreased by 0.7% and was mostly driven by a decrease in development loans to R73.6bn (31 March 2018: R75.0bn). The total impairment provision for expected credit losses increased by 14.7% to R5.5bn (31 March 2018: R4.8bn). Despite the additional impairment charge, the loan book asset quality remains acceptable, as demonstrated by the non-performing loans ratio of 5.2 %(31 March 2018: 4.4%), which is within the threshold of 6%. The IFRS 9 opening retained earnings adjustment as disclosed in the condensed statement of changes in equity mainly comprises of an adjustment to the allowance for expected credit losses. The cost to income ratio for the period is 22% as compared to 24% in 30 September 2017. The Bank generated cash flow from operating activities of R1.9bn (30 September 2017: R1.7bn). Return on equity (measured on sustainable earnings) remained unchanged at 9.2% March 2018: 8.3%).Debt-to-equity ratio excluding R20bn callable capital is at 140.8% (31 March 2018 156.2%). Debt-to-equity ratio including R20bn callable capital amounts to 90.8% (31 March 2018 98.8%). Callable capital is shares authorised but not issued. At 90.8% the debt to equity ratio remains well within the Bank's regulatory limit of 250%.

Condensed Statement of Comprehensive Income for the six months ended 30 September 2018

in thousands of rand	**Six months ended 30 Sept 2018 Reviewed**	**Six months ended 30 Sept 2017 Reviewed**
Net interest income	**2 234 744**	**1 913 678**
Other income	417 347	221 314
Net foreign exchange gain	628 247	110 487
Net operating income	**3 280 338**	**2 245 479**
Grants	(8 129)	(8 045)
Net impairment loss on financial assets	(501 449)	(272 210)
Personnel expenses	(380 602)	(376 290)
Other operating expenses	(136 361)	(122 485)
Depreciation and amortisation	(9 908)	(12 101)
Profit for the period	**2 243 889**	**1 454 348**

Condensed Statement of Other Comprehensive Income for the six months ended 30 September 2018

in thousands of rand	**Six months ended 30 Sept 2018 Reviewed**	**Six months ended 30 Sept 2017 Reviewed**
Profit for the period	2 243 889	1 454 348
Other comprehensive loss	(90 478)	(7 052)
Total comprehensive income	**2 153 411**	**1 447 296**

Condensed Statement of Financial Position as at 30 September 2018

in thousands of rand	As at 30 Sept 2018 Reviewed	As at 31 March 2018 Audited
Assets		
Cash and cash equivalents at amortised cost	4 330 078	3 741 853
Trade and other receivables at amortised cost	458 851	399 621
Investment securities held at FVTPL	1 354 923	1 420 920
Derivative assets held for risk management held at FVPL	791 867	1 240 445
Post-retirement medical benefits investment	44 369	45 446
Equity investments held at FVTPL	6 266 188	5 535 351
Development bonds at amortised cost	1 290 731	1 290 361
Development loans at amortised cost	73 572 619	75 047 479
Property and equipment	395 777	398 760
Intangible assets	92 553	91 710
Total assets	**88 597 956**	**89 211 946**
Liabilities		
Trade and other payables at amortised cost	1 116 681	1 204 264
Provisions	75 155	66 640
Employee benefits	46 756	46 756
Debt funding held at FVTPL	6 367 565	6 473 055
Debt funding held at amortised cost	44 386 898	47 040 916
Derivative liabilities held for risk management held FVTPL	320 145	59 240
Total liabilities	**52 313 200**	**54 890 871**
Equity		
Share capital	200 000	200 000
Retained earnings	21 966 304	19 472 969
Permanent government funding	11 692 344	11 692 344
Reserve for general loan risks	2 180 894	2 611 976
Other reserves	245 214	343 786
Total equity	**36 284 756**	**34 321 075**
Total liabilities and equity	**88 597 956**	**89 211 946**

Condensed statement of changes in equity for the six months period ended 30 September 2018

in thousands of rand	Six months ended 30 Sept 2018 Reviewed	Six months ended 30 Sept 2017 Reviewed
Balance at beginning of the year	**34 321 075**	**32 031 376**
IFRS 9 adjustments	(189 730)	-
Restated opening balance after IFRS 9 adjustments	**34 131 345**	**31 031 376**
Net profit for the period	2 243 889	1 454 348
Net unrealised loss on cash flow hedges	(90 478)	(10 947)
Unrealised gain on available-for-sale financial assets	-	3 895
Total equity at end of the period	**36 284 756**	**33 478 672**

Condensed statement of cash flow for the six months period ended 30 September 2018

	Six months ended 30 Sept 2018 Reviewed	Six months ended 30 Sept 2017 Reviewed
Cash flows generated from operating activities	1 910 240	1 730 457
Cash flows used in development activities	3 819 424	(2 045 309)
Cash flows used in investing activities	(2 829)	(285 557)
Cash flows (used in)/ generated from financing activities	(5 188 052)	1 376 361
Effect of exchange rate movement on cash balances	49 442	4 906
Net decrease in cash and cash equivalents	**588 225**	**780 858**
Cash and cash equivalents at the beginning of the year	**3 741 853**	**2 299 247**
Cash and cash equivalents at the end of the period	**4 330 078**	**3 080 105**

Events after the reporting period

There were no adjusting events that occurred after the reporting date.

Outlook

The success to the year ending 31 March 2019 hinges on the Bank’s ability to continue delivering on its mandate, within the low economic growth environment. The key challenge at this stage will be to meet disbursement targets amid current economic conditions. The Bank is however well positioned to weather the volatility through the continued focus on structured infrastructure solutions, project preparation, new infrastructure programmes, and partnerships.

30 November 2018

Debt sponsor: Nedbank CIB, a division of Nedbank Limited